

Personal Financial Management - Lesson 2

Understanding the Leave and Earning Statement (LES)

ENABLING OBJECTIVES:

Upon completion of this lesson, students will be able to:

- 2.1 Explain the importance of monitoring pay and entitlements on their LES.
- 2.2 Identify the components of their LES and what they represent.
- 2.3 Demonstrate the ability to identify errors in their pay using their LES.
- 2.4 Identify the advantages of the optimum variable of state and federal income tax deductions.
- 2.5 Identify the different sources for help with understanding their LES.

REFERENCES:

1. OPNAVINST 1740.5A (Draft)
2. U.S. Navy's Personal Financial Management Standardized Curriculum (PERS 662)
3. OPNAVINST 1740.1 Fleet and Family Support Center
4. Command Financial Specialist Training Manual NAVPERS 15608C
5. www.lifelines2000.org
6. www.moneycentral.msn.com

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Personal Financial Management - Lesson 2

Understanding the Leave and Earning Statement (LES)

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CASE STUDIES:

None

VIDEO TAPES:

None

NOTES TO THE FACILITATOR:

The main points of this topic are:

- \$ The importance of monitoring the members Leave and Earnings Statement
- \$ Information shown on the Leave and Earning Statement
- \$ Calculating the accuracy of pay and allowances
- \$ Optimizing tax liability
- \$ Where to go for help

I. INTRODUCTION In this lesson we will discuss the importance of monitoring your pay and entitlements as reflected on your Leave and Earnings Statement, or LES. We will examine the components of the LES and talk about how to identify any errors in your net pay. We will also identify ways to optimize your federal and state tax liabilities and where to go for help if your pay is not correct.

A. In the last lesson, we talked about the various pays and deductions that result in your net pay.

B. We also discussed how your net pay "magically" appears in your established bank account.

C. In this lesson, we will concentrate on what information is provided on the Leave and Earnings Statement you receive each month, and how to determine the accuracy of this information.

II. IDENTIFICATION The top portion of the LES contains information about the member to whom it was issued, the office that issued it, and the pay period covered by the statement.

A. Block 1 contains your name in Last, First, Middle Initial format.

SHOW SLIDE 2-1 LESSON 2 TITLE SLIDE

Note to facilitator

Ask the following question:
Why is monitoring your pay important?

SHOW SLIDE 2-2 SAMPLE LES

SHOW SLIDE 2-3 IDENTIFICATION OVERVIEW

SHOW SLIDE 2-4 NAME

DISCUSSION POINT	RELATED INSTRUCTOR ACTIVITY
<p>B. Block 2 shows your Social Security number.</p> <p>C. Block 3 is your pay grade - a good thing to check the next month after you are promoted.</p> <p>D. Block 4 is titled Pay Date. Note that this is NOT the day on which you are paid, but rather the date you entered active duty for pay purposes. Like your Social Security number, it should never change, unless it is inaccurate and you take steps to correct it.</p> <p>E. Block 5 will be a two-digit number reflecting the number of whole years of creditable service you have completed. Check to see that this number changes on the first payday after each anniversary of the date shown in Block 4 as some of your entitlements increase with years of service.</p> <p>F. Block 6, titled ETS, shows the expiration of your current term of service. It is a six-digit figure with the first two digits indicating the year, the second two the month, and the last two the day. The example shown translates to _____.</p> <p>G. Block 7 shows your branch of service.</p>	<p>SHOW SLIDE 2-5 SOCIAL SECURITY NUMBER</p> <p>SHOW SLIDE 2-6 PAY GRADE</p> <p>SHOW SLIDE 2-7 PAY DATE</p> <p>SHOW SLIDE 2-8 YEARS OF SERVICE</p> <p>SHOW SLIDE 2-9 EXPIRATION OF SERVICE</p> <p>SHOW SLIDE 2-10 BRANCH OF SERVICE</p>

DISCUSSION POINT	RELATED INSTRUCTOR ACTIVITY
<p>H. The "ADSN slash DSSN is military speak that identifies the Disbursing Station that prepared the LES.</p>	<p>SHOW SLIDE 2-11 DISBURSING OFFICE</p>
<p>I. The last block on the top line shows the pay period covered by the LES.</p>	<p>SHOW SLIDE 2-12 PAY PERIOD</p>
<p>III. ENTITLEMENTS, DEDUCTIONS, ALLOTMENTS, MATH SUMMARY The next area down on the LES will probably be the first place you look. Your net pay and the items used to calculate it are shown here.</p>	<p>SHOW SLIDE 2-13 ENTITLEMENTS, DEDUCTIONS, ALLOTMENTS, MATH SUMMARY</p>
<p>A. Block 10 lists your entitlements and allowances and shows the amount of each for the pay period, including any retroactive entitlements or allowances. In the unlikely event that you have more than 15 allowances or entitlements, this block may be continued in the remarks section.</p>	<p>SHOW SLIDE 2-14 ENTITLEMENTS AND ALLOWANCES</p>
<p>B. These entitlements and allowances are totaled in Block 20.</p>	<p>SHOW SLIDE 2-15 ENTITLEMENTS TOTAL</p>
<p>C. Block 11 will show all deductions including taxes, SGLI, mid-month pay, and dependent dental plan, to include any retroactive deductions. If there are over 15 deductions, this block may also overflow into the remarks block.</p>	<p>SHOW SLIDE 2-16 DEDUCTIONS</p>

DISCUSSION POINT	RELATED INSTRUCTOR ACTIVITY
<p>D. Deductions are totaled in Block 21.</p> <p>E. Block 12 will list all your allotments. Note that if you have more than one allotment of the same type, the only differentiation may be the dollar amount. Like the other two categories we just discussed, allotments over 15 will show in the remarks block.</p> <p>F. Allotments are totaled in Block 22.</p> <p>G. Blocks 13 through 19 provide a math summary that leads to the "bottom line" for the month in question.</p> <p>H. Block 13, Amount Forwarded, shows the amount of all unpaid pay and allowances, if any, due you from the prior LES.</p> <p>I. Block 14, Total Entitlements, should show the same figure as Block 20 at the bottom of the Entitlements section.</p> <p>J. Likewise, Block 15, Total Deductions, should read the same as Block 21 at the bottom of the Deductions section.</p>	<p>SHOW SLIDE 2-17 DEDUCTIONS TOTAL</p> <p>SHOW SLIDE 2-18 ALLOTMENTS</p> <p>SHOW SLIDE 2-19 ALLOTMENTS TOTAL</p> <p>SHOW SLIDE 2-20 SUMMARY</p> <p>SHOW SLIDE 2-21 AMOUNT FORWARDED</p> <p>SHOW SLIDE 2-22 TOTAL ENTITLEMENTS</p> <p>SHOW SLIDE 2-23 TOTAL DEDUCTIONS</p>

DISCUSSION POINT**RELATED INSTRUCTOR ACTIVITY**

K. And guess what? Block 16, Total Allotments, should contain the same number as Block 22 at the bottom of the Allotments area.

L. Block 17, Net Amount, will be the mathematical sum of the four entries above.

M. Block 18, Carried Forward, will show any amount that is to be carried forward to the next LES, where it would show in Block 13.

N. Block 19 is probably where your eyes will first go upon opening your Leave and Earnings Statement as it shows the end-of-month, or EOM, pay that should have been deposited in your account. It is the mathematical sum of the two figures above it.

IV. LEAVE INFORMATION Now we get to the Leave portion of the Leave and Earnings Statement. This information is shown in Blocks 23 through 30.

A. Block 23 is labeled BF BAL for brought forward leave balance.

SHOW SLIDE 2-24 TOTAL ALLOTMENTS

SHOW SLIDE 2-25 NET AMOUNT

SHOW SLIDE 2-26 CARRIED FORWARD

SHOW SLIDE 2-27 END-OF-MONTH PAY

SHOW SLIDE 2-28 LEAVE

SHOW SLIDE 2-29 BALANCE FORWARD

DISCUSSION POINT**RELATED INSTRUCTOR ACTIVITY**

B. Block 24 is labeled ERND, military speak for Earned. This shows the cumulative amount of leave earned in the current fiscal year, or current term of service if you have re-enlisted or extended since the start of the fiscal year.

C. Block 25 is titled USED. Wow! Real English. This block will show the cumulative amount of leave used during the current fiscal year, or term of enlistment.

D. Block 26, CR FWD, is your current leave balance as of the end of the period covered by the LES. It should be the balance forward, plus leave earned, minus leave used. If your days off are as important to you as mine are to me, you might want to check the computer's math from time to time.

E. Block 27, ETS BAL, shows the projected leave available through your current Expiration Term of Service. This figure could help you make appropriate plans if you do not plan to re-enlist.

F. Block 28 shows any leave that you may have lost, usually because of having too high a balance at the end of the fiscal year. All of you are too smart to let that happen, right?

SHOW SLIDE 2-30 LEAVE EARNED

SHOW SLIDE 2-31 LEAVE USED

SHOW SLIDE 2-32 CARRIED FORWARD

SHOW SLIDE 2-33 BALANCE TO END OF TERM OF SERVICE

SHOW SLIDE 2-34 LEAVE LOST

DISCUSSION POINT

RELATED INSTRUCTOR ACTIVITY

G. Block 29 shows the number of days of leave for which you have been paid. This won't apply to any of you until at least the end of your first hitch.

H. Block 30 will probably be another high interest block for you on each LES. This block shows the number of days of leave that you must "use or lose" before the end of the fiscal year - and that happens every year on 30 September, unless Congress decides to make a change. Remember throughout your service that leave is a privilege, not a right. If you have a significant number of days in this block, it's time to talk to your supervisor about your unit's commitments and when you may be able to take some leave without adversely affecting mission accomplishment.

V. FEDERAL TAX WITHHOLDING

INFORMATION Just to the right of your leave information, you will find information about your Federal Income Tax Withholding, or FITW.

A. Block 31 shows the total amount of your wages during this LES period that are subject to Federal Income Tax Withholding. Remember that some of your entitlements are NOT taxable.

SHOW SLIDE 2-35 LEAVE PAID

SHOW SLIDE 2-36 USE OR LOSE LEAVE

SHOW SLIDE 2-37 FEDERAL INCOME TAX WITHHOLDING

SHOW SLIDE 2-38 WAGE PERIOD

DISCUSSION POINT**RELATED INSTRUCTOR ACTIVITY**

B. The next block shows the money you have earned this calendar year-to-date (YTD) that is subject to Federal Income Tax.

C. Block 33 indicates the marital status used to calculate your Federal Income Tax withholding. Be sure this is accurate, particularly for the next LES after a status change. An incorrect status could result in too much money being withheld from each paycheck, or, worse, not enough, leaving you with a large tax bill for the year.

D. The next block indicates the number of exemptions used to calculate tax withheld. Again, ensure this number is accurate, particularly immediately after any change.

E. Block 35 will show any additional dollar amount you have requested to be withheld in addition to the normal amount for your marital status and number of exemptions.

F. The last block in the Federal Income Tax area shows the cumulative amount of tax withheld for the calendar year to date. This information from your end of December LES could prove useful if you desire to get an idea of your possible tax refund, or tax liability, prior to receiving your W-2 forms.

SHOW SLIDE 2-39 WAGES YEAR-TO-DATE

SHOW SLIDE 2-40 MARITAL STATUS

SHOW SLIDE 2-41 EXEMPTIONS

SHOW SLIDE 2-42 ADDITIONAL TAX

SHOW SLIDE 2-43 FITW YEAR-TO-DATE

VI. SOCIAL SECURITY AND MEDICARE TAXES

The section of the LES immediately below your leave information deals with Social Security and Medicare taxes. These fall under the Federal Insurance Contributions Act, hence the acronym FICA. Remember that in case you ever become a contestant on a quiz show.

A. The first block on this line, Block 37, shows the amount of your wages that were subject to FICA during the LES period. This will probably not be the same figure as the WAGE PERIOD figure for Federal Income Taxes.

B. The next two blocks show the wages year-to-date subject to Social Security taxes and the amount of such taxes withheld to date during the calendar year. A side note here: the amount of Social Security you will draw when you become eligible will be based on contributions throughout your working life. Therefore, it's a good idea to keep all your end-of-December LESs in a secure spot to document your Social Security contributions -- at least until you start to receive letters of eligibility from the Social Security Administration.

C. Blocks 40 and 41 show eligible wages and withholdings year-to-date for Medicare taxes.

SHOW SLIDE 2-44 FICA INFORMATION

SHOW SLIDE 2-45 FICA WAGES THIS PERIOD

SHOW SLIDE 2-46 SOCIAL SECURITY WAGES AND WITHHOLDING YTD

SHOW SLIDE 2-47 MEDICARE WAGES AND WITHHOLDING YTD

VII. STATE TAXES The area to the right of the FICA information contains information about state income taxes. It contains much of the same information as the section relative to Federal taxes with one key addition.

A. Block 42 is the two-letter postal identifier of the state where you claim domicile. As I mentioned earlier, several states do not have a state income tax and there are legal and ethical ways to establish your domicile in one of them.

B. One other word on state income taxes. The Soldiers and Sailors Relief Act prohibits states from collecting state income tax on military pay of members who are stationed in that state, but domiciled elsewhere. However, the state may collect these taxes on monies you or your spouse earns from civilian employment.

VIII. ADDITIONAL INFORMATION Blocks 48 through 60, on the line titled Pay Data contain information that could be important to you under a variety of circumstances, mostly later in your military careers.

A. You might get a chuckle out of the fact that Blocks 48 and 49 show the type of BAQ, or Basic Allowance for Qarters, and the type of dependents used to determine this amount, while the pay itself is referred to as BAH, or Basic Allowance for Housing.

SHOW SLIDE 2-48 STATE TAXES

SHOW SLIDE 2-49 STATE OF DOMICILE

SHOW SLIDE 2-50 SOLDIERS AND SAILORS RELIEF ACT

SHOW SLIDE 2-51 MISCELLANEOUS INFORMATION

SHOW SLIDE 2-52 BAQ TYPE AND DEPENDENTS

DISCUSSION POINT	RELATED INSTRUCTOR ACTIVITY
<p>B. The next block over, VHA ZIP, shows the ZIP code used to determine your housing allowance. Because your housing allowance is designed to defray actual expenses, it will not be as great in, for example, Pensacola, as it will be if you are stationed in or around Washington, D.C.</p> <p>C. The term JFTR that appears in Blocks 54 and 56 stands for Joint Federal Travel Regulation. Many of the allowances you may receive during your career will be based on comparative cost figures contained in this manual. On the LES, the JFTR code is used to determine your eligibility for, and amount of any Cost of Living Allowance, or COLA, you may be draw due to assignment, or location of dependents, in a high-cost area.</p> <p>D. Also glance at Block 59 when you get your LES. This Block is not used by the Navy. If there is an entry in this block, it could mean you have been traded. Just kidding, but an entry here would be reason to check the accuracy of your LES with your local disbursing office.</p> <p>IX. REMARKS SECTION. The bottom portion of the LES is a remarks section. This will show starts, stops, or changes in any of your pay items. It will always contain year-to-date entitlements and may contain general notices from various levels of command.</p>	<p>SHOW SLIDE 2-53 VHA ZIP</p> <p>SHOW SLIDE 2-54 JFTR CODES</p> <p>SHOW SLIDE 2-55 TPC BLOCK</p> <p>SHOW SLIDE 2-56 REMARKS</p>

X. PROBLEMS The Leave and Earnings Statement is certainly a "busy" document, but the information is presented in a logical format that will allow you to determine the accuracy of your pay and entitlements each month. Remember that it is your personal responsibility to do so. If you ever believe that information shown on your LES is not accurate, visit your local disbursing office as soon as practical to discuss your concerns.

XI. SUMMARY During this class, we stressed the importance of monitoring your Leave and Earning Statement to detect any errors in your pay and allowances. We discussed all of the information provided in the various sections of the LES. We also talked about ways to optimize your state and Federal income tax deductions and responsibilities, and we identified where you should go for help if you believe your pay and allowances are not accurate. I hope you will use this information to keep your pay and allowances ship shape throughout your military tenure.

SHOW SLIDE 2-57 PROBLEMS

SHOW SLIDE 2-58 SUMMARY QUESTIONS (?)

Summary Questions

1. Why is it important to monitor our LES?
2. How do you determine errors on your LES?
3. Where can I go for Help to understand my LES?

SHOW SLIDE 2-59 SUMMARY

SHOW SLIDE 2-60 EFFECTS OF COMPOUND INTEREST